

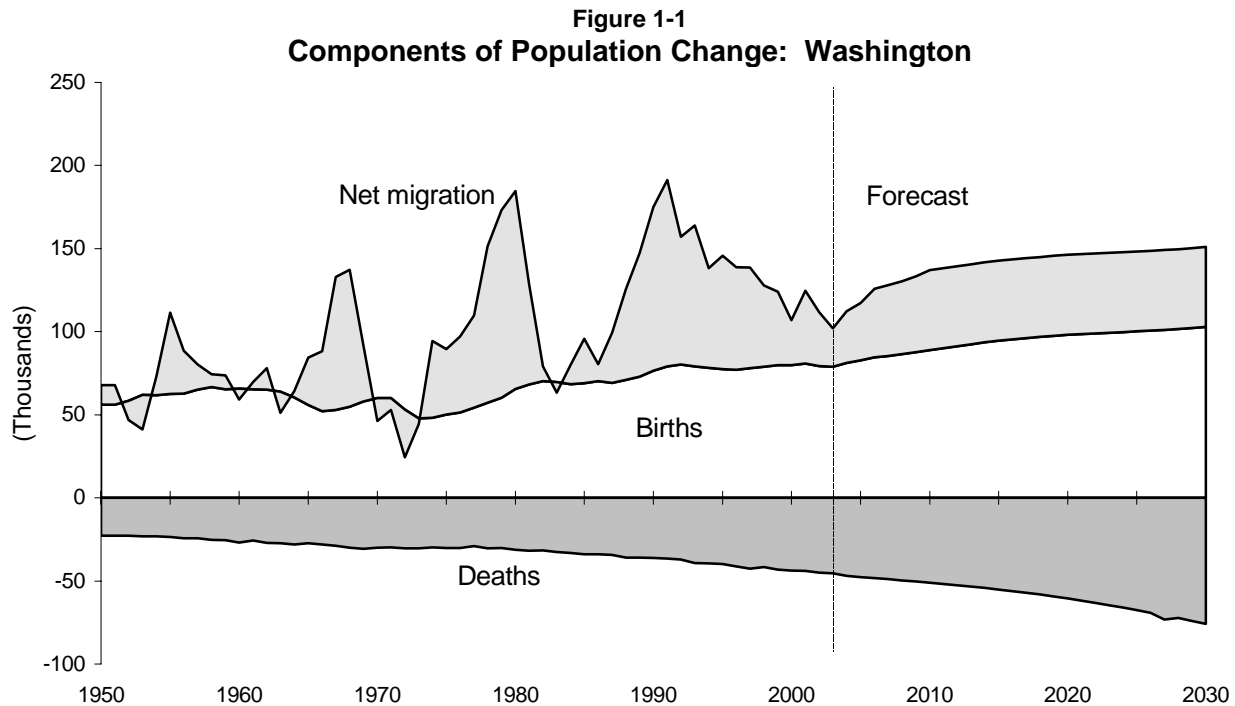


CHAPTER 1

Long-Term Forecasts of Washington Population and Net Migration

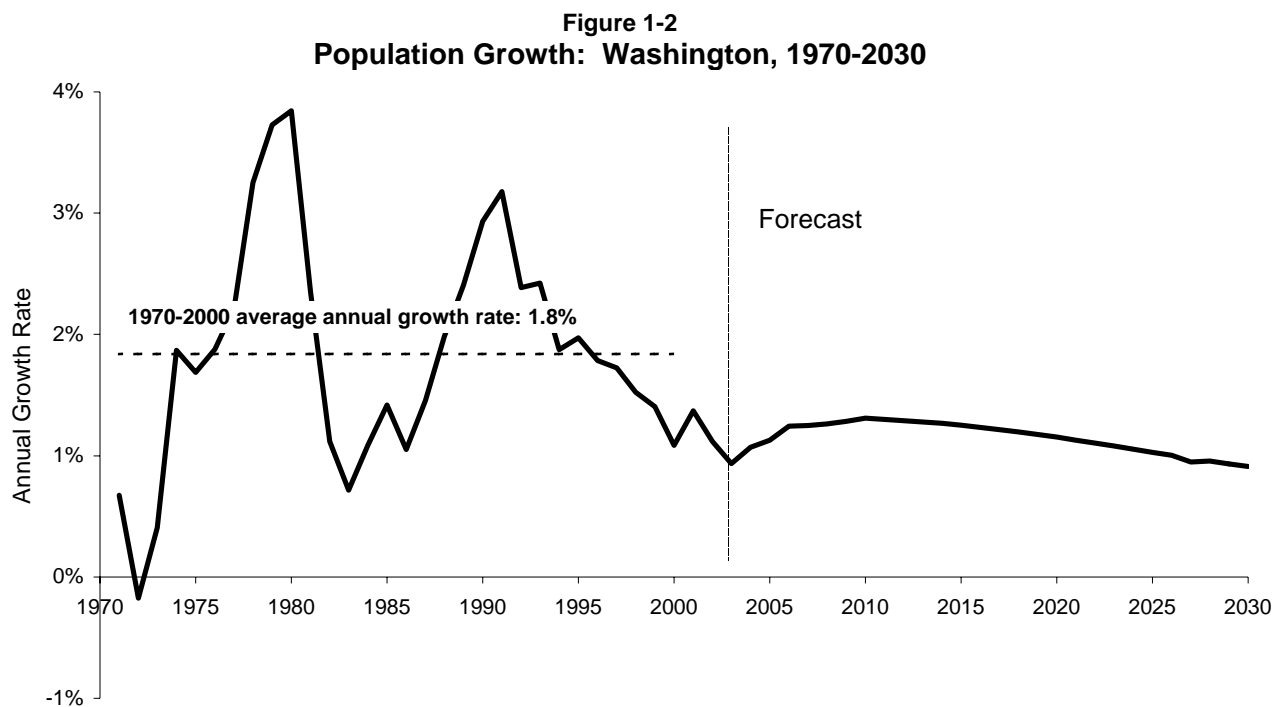
POPULATION PROJECTION is an integral part of the long-term forecast for Washington labor force, employment, and income. Population growth contributes to economic growth in the state by making available the labor needed for production and by increasing the demand for goods and services.

Long-term population growth results from the combined effects of two sources of change: natural increase and net migration. Natural increase is the excess of births over deaths, and net migration is the difference between in-migration and out-migration.



Between 1970 and 2003, population in Washington grew 77 percent from 3.4 to 6.2 million, averaging 1.8 percent per year. However, the year-over-year changes fluctuated widely, ranging from a high of 3.8 percent in 1979-80 to the 1971-72 low of negative 0.2 percent. Net migration, which responds to changing economic conditions, accounted for most of the ups and downs in the yearly state population figures (Figure 1-1). Change in the number of births over time depends on the growth, age structure, and fertility rate of the woman population. In the long run, trend of births in Washington reflects long, generational waves of socioeconomic change including the Great Depression, the post World War II baby boom, the baby bust of the 1970s, and the baby boom echo of the 1980s.

Washington population grew steadily in the second half of the 1980s and peaked in 1990. Between 1990 and 1993, the state population growth remained high at an average 2.8 percent annual rate. For the rest of the decade, however, the state population growth slowed to 1.6 percent per year. By 2003, about 6.2 million people lived in Washington State. Over the next 25 years, the state population is expected to grow at an annual rate of 1.2 percent (Figure 1-2), reaching a total of 8.3 million by the year 2030. Net migration will continue to play a major role in the state population growth.



OFFICE OF FINANCIAL MANAGEMENT, Forecasting Division

APRIL 2004

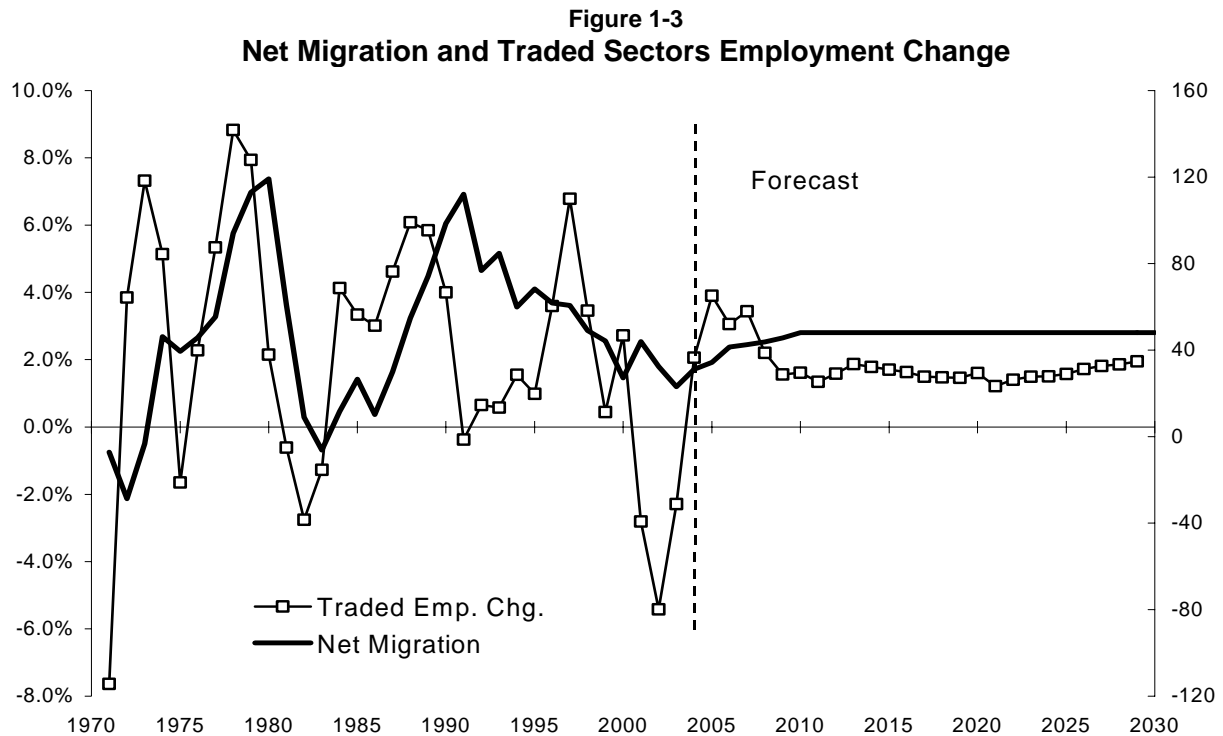
Net Migration

People move into or out of Washington for a variety of reasons. Non-economic factors such as relocations of military personnel, retirement migration (principally persons over age 65), and pursuit of social and natural amenities account for only a small portion of net migration. The majority of interstate population movements are due to relative changes in the labor market and economic conditions among the states. An expanding economy and labor market tends to “pull” people into an area. Conversely, a contracting economy and labor market tends to “push” people out of it. Net migration is the difference between out-migration and in-migration. These “push” and “pull” factors have made net migration the major contributor to population change in Washington.

The effects of the “push” and “pull” factors are evident in the historical pattern of the state’s net migration. For example, large net migration occurred as a result of rapid economic expansions in Washington during the late 1970s and again in the late 1980s. When the state economy slumped in 1970-73 and 1981-83, net migration dropped sharply; in several of those years there was actually negative net migration.

In the first half of the 1990s, the slowing of economic growth in the state lowered the level of net migration and thus restrained population growth, but not to the same extent as in the past. One major reason is that employment growth in Washington still remained in positive territory during the 1990-91 national recession. This made Washington relatively more attractive, compared to other states that were losing employment, to those who were seeking jobs. The relative strength of the Washington economy compared to the rest of the U.S. helped “pull” more job seekers into the state. In addition, the California economy, which experienced a steep employment decline starting about the same time as the U.S. recession, remained depressed well into 1993. Even though Washington experienced a significant reduction in aerospace jobs beginning in 1991, the overall Washington economy continued to perform much better than California. Between 1990 and 1994, California experienced a net out-migration of over 400,000 persons per year. Washington received a significant amount of these Californian out-migrants. These two factors, among others, contributed to fairly high levels of net migration for Washington during the early 1990s, even when the state’s economy slowed down significantly.

The picture, however, has reversed in the next five years. From 1995 to 2000, while state economic growth picked up pace, so did the U.S. and the Californian economies. As a result, the level of net migration dropped steadily (Figure 1-3).



OFFICE OF FINANCIAL MANAGEMENT, Forecasting Division

APRIL 2004

Change in the “traded sector” employment has been a major determinant of the Washington net migration. The traded sectors of the state economy include manufacturing, civilian federal government, information services, professional and management services. These industries are considered “traded” because they bring revenue and income into the state. For example, most of

OFFICE OF FINANCIAL MANAGEMENT

the software products produced in Washington are sold to businesses and consumer outside the state.

The traded industries usually demand special worker skills that cannot be sufficiently supplied from the local labor pool. Companies in the traded sectors thus constantly recruit workers, especially professionals, from the national labor market. During expansionary periods, new jobs created in the state's traded industries very likely require specialized skills or experience that are in short supply among existing Washington worker pool. For example, to increase development and production to the desired levels, the aerospace industry may require as many as 3,000 additional engineers in a single year. If this amount of extra engineers is not readily available in the state, they will have to come from elsewhere in the country or even from overseas.

Traded sectors also tend to provide high-wage jobs, which is another incentive to attract workers from outside the state. High wages not only induce people to change jobs, they also help cover the costs of interstate relocation. Cost is a critical concern especially if in-migrating workers need to bring family members with them. In short, when Washington's traded sectors expand, net migration increases, and when these sectors decline net migration falls.

Net migration has a significant impact on the size of the state labor force. Since a majority of in-migration to Washington is associated with employment opportunities, these economic migrants tend to be active labor market participants for a long span of time, therefore contributing to the growth of labor force. Also, gross (i.e., in- plus out-) flow of migration is generally 5 to 10 times the magnitude of net migration; this is the reason why many public and private business operations (e.g., issuance of driver's license, rental housing, etc.) are strongly affected by the level of net migration.

Forecast of Net Migration

The methodology used to forecast net migration includes two steps. First, the Office of Financial Management (OFM) and the Employment Security Department (ESD) jointly develop an employment forecast for the traded sectors. This initial forecast is based on a system of equations determining employment in each manufacturing sector, the federal civilian sector, and the producer services sector. The producer services sector consists of information services, professional services, management and related services.

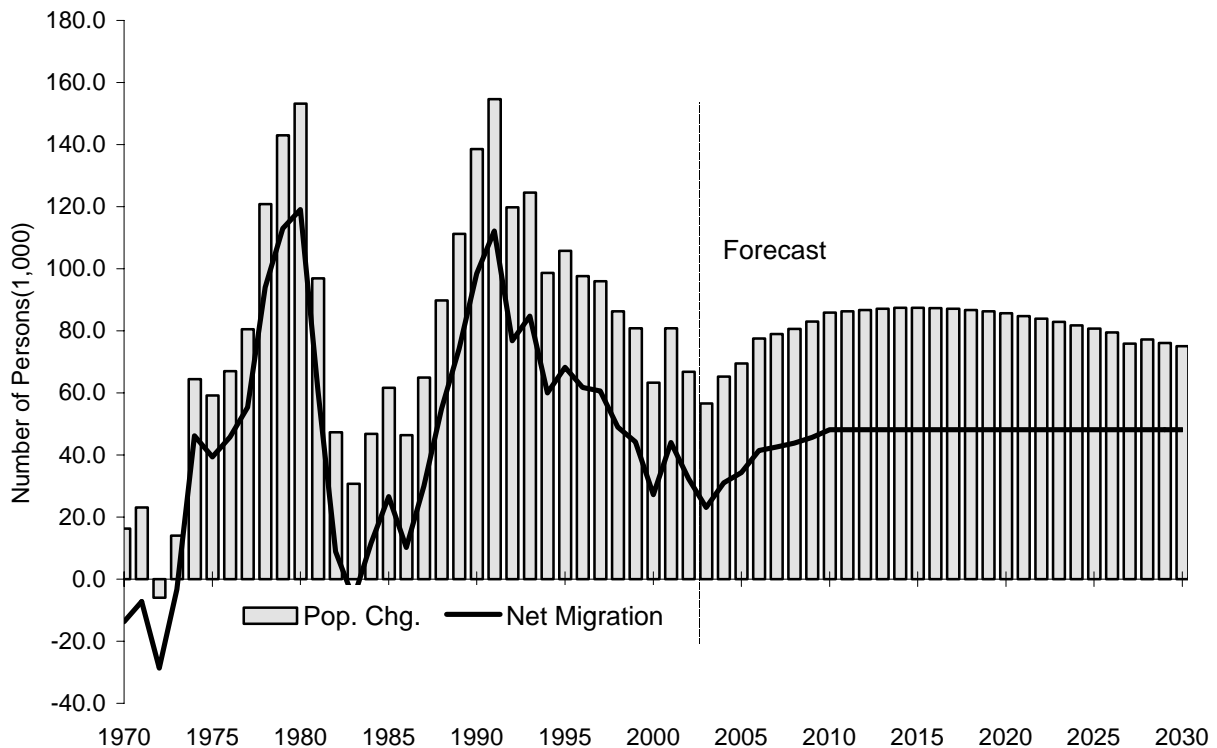
Next, a single equation model is developed which treats Washington net migration as a function of traded sector job growth within the state relative to economic conditions in the rest of the country and in California. The specific factors included in the model to determine levels of Washington net migration are:

- **Percentage change in Washington's traded sector employment relative to percentage change in the U.S traded sector employment.** (The U.S. forecast was from Global Insight Summer 2003 long-term trend forecast.)
- **Percentage change in Washington's traded sector employment relative to percentage change in California traded sector employment.** (The California forecast was obtained from the Global Insight's Regional Services.)

- **The national unemployment rate.**

Net migration for Washington over the next 25 years is predicted to maintain an average of about 45,500 persons per year, about the same as the historical average of 44,100 per year between 1970 and 2003. The level of net migration, however, varies over the forecast period. Net migration is predicted to remain low during 2003-05, and then gradually increase to settle on a stable, long-term level of around 48,100 per year through 2030. (Population statistics, including net migration, are shown in Table 1-1 at the end of this chapter.)

Figure 1-4
Net Migration and Population Change



OFFICE OF FINANCIAL MANAGEMENT, Forecasting Division

APRIL 2004

The main reason that Washington's net migration is expected to sustain at the historical average is that Washington's traded sectors are expected to maintain healthier growth than their national counterparts over the forecast period. For example, the forecast calls for manufacturing employment to grow modestly in Washington over the next 25 years, whereas manufacturing employment in the U.S. is projected to gradually decline.

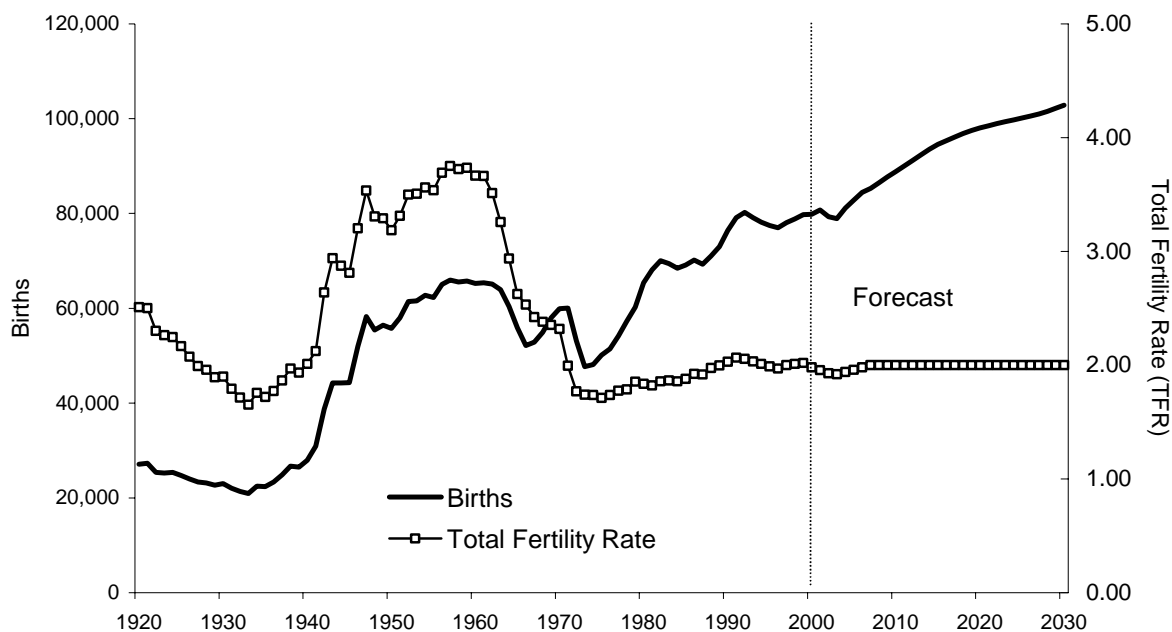
The net migration forecast, once completed, is incorporated in the demographic model for the long-term projection of state total population.

Natural Increase

Natural increase is the second component of population growth. Natural changes include additions to the population through births, and reductions from the population due to deaths. The state's natural population increase is projected to average 38,000 a year between 2003 and 2030.

Total fertility rate in Washington, which represents the estimated average number of births to women during their childbearing years, is expected to reach and remain at a replacement level of 2.0 births per woman through the end of the forecast period (Figure 1-5). This is somewhat above the all-time low of 1.6 births per woman in 1933, but far below the peak of 3.7 births per woman in 1957. The fertility rate is not expected to rise significantly, in part because of the increasing labor force participation rate for women of childbearing age. (See next chapter.) Also, compared to earlier generations, women are marrying later, having births later, more likely to live independently, and spending more time on education. These factors, in combination with technological advancements in birth control, tend to lower the fertility rate.

Figure 1-5
Births and the Total Fertility Rate: Washington



While the fertility rate is expected to remain fairly stable throughout the forecast period, the number of women of childbearing age will grow steadily. As a result, the annual number of births in Washington is expected to rise from 79,200 in 2001-02 to about 102,900 in 2029-30.

By definition, the labor force includes only those age 16 and older. Births have a delayed effect on labor force growth, as individuals born today will be potential labor force participants in 16 years. This implies that recent population changes due to births will affect labor force growth in

latter years of the forecast period. For example, anyone born in 2000 will be old enough to enter the labor force in 2016. Similarly, births over the past 16 years are closely associated with the labor force growth in the 2003-2018 period. Although the annual number of births in Washington during the early 1970s dropped to less than 50,000, the number of births rebounded to 70,100 in 1982. By 1990 total number of births in the state had increased to 76,400. As explained above, the increased births in the 1980s and 1990s will contribute to the growth of the state workforce over the next two decades.

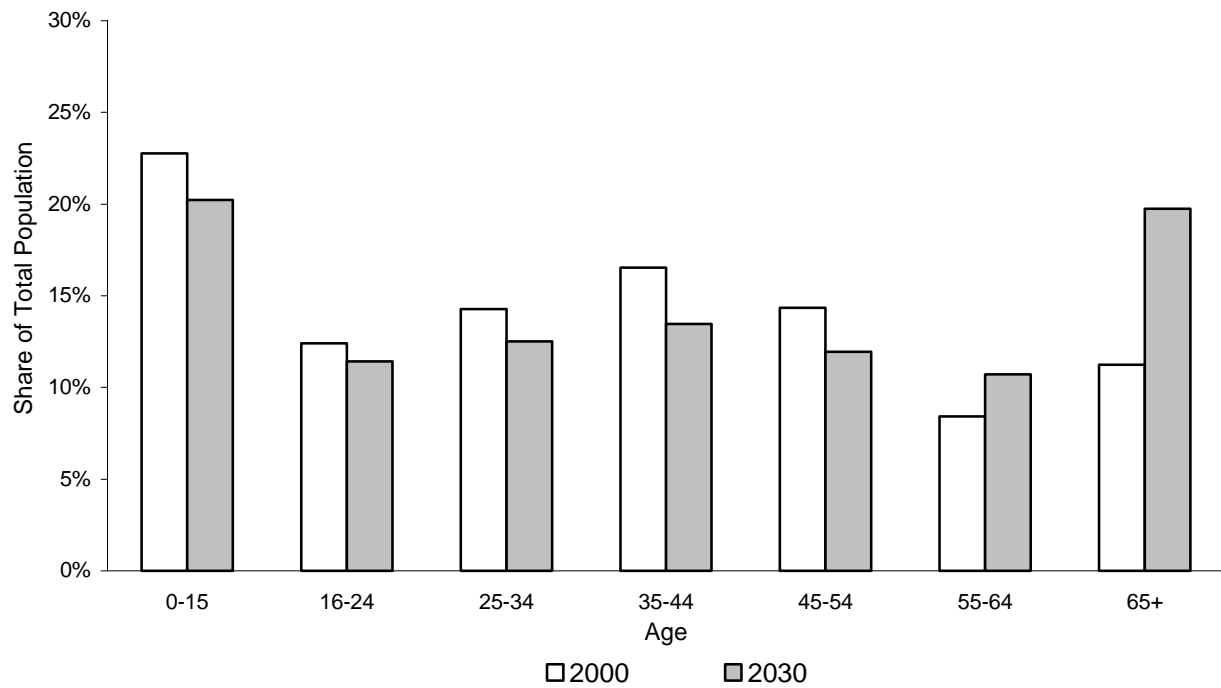
Mortality, the other component of natural increase, will also rise throughout the forecast period. Life expectancy increased rapidly between 1920 and 1960 and continued to improve through the 1980s, albeit at a much slower pace. Since a lot of improvements in the prevention of infant deaths already have been achieved, future substantial progress in life expectancy at birth is unlikely.

The forecast calls for both male and female life expectancy in Washington to continue improving at a slow but steady rate. As in the nation as a whole, the state's population will be aging. Higher mortality rates associated with an aging population will more than offset the improving life expectancy, leading to rising aggregate death rates. The proportion of all deaths due to deaths of the elderly will increase during the forecast period. This suggests that mortality will not have a major impact on labor force growth in the forecast period, because most of the deaths will occur at ages when individuals are unlikely to be in the labor force.

Over the next few decades, aging of the population, both in the state and throughout the nation, will be a profound demographic phenomenon. In Washington State, people 65 years of age and older will account for a growing share of population, from 11.2 percent in 2000 to 19.7 percent in 2030 (Figure 1-6). The trend will have widespread economic and public policy implications ranging from the expanding demand for personal and health services at the local level to increasing pressure on the federal Social Security and medical insurance programs.

Table 1-1 on page 11 shows the historical and projected Washington population trend, and the components of population change.

Figure 1-6
Aging of Population: Washington



2004 LONG-TERM ECONOMIC AND LABOR FORCE FORECAST

Table 1-1

Components of Population Change: 1990 – 2030

Period	Population End of Period	Components of Change								
		Population Change		Births		Deaths		Natural	Net Migration	
		Number	%	Number	Rate *	Number	Rate *	Increase	Number	Rate *
1989-1990	4,866,700	138,600	2.93	76,400	15.93	36,200	7.55	40,100	98,500	20.53
1990-1991	5,021,300	154,600	3.18	79,100	15.99	36,600	7.40	42,500	112,100	22.68
1991-1992	5,141,200	119,800	2.39	80,200	15.79	37,200	7.31	43,000	76,800	15.11
1992-1993	5,265,700	124,500	2.42	79,100	15.20	39,400	7.56	39,700	84,800	16.29
1993-1994	5,364,300	98,700	1.87	78,200	14.71	39,500	7.44	38,700	60,000	11.29
1994-1995	5,470,100	105,800	1.97	77,500	14.30	40,000	7.38	37,500	68,300	12.60
1995-1996	5,567,800	97,700	1.79	77,000	13.95	41,200	7.46	35,800	61,800	11.20
1996-1997	5,663,800	96,000	1.72	78,000	13.90	42,600	7.59	35,400	60,600	10.79
1997-1998	5,750,000	86,300	1.52	78,800	13.81	41,600	7.28	37,200	49,000	8.59
1998-2000	5,830,800	80,800	1.41	79,800	13.77	43,100	7.45	36,700	44,200	7.63
2000-2000	5,894,100	63,300	1.09	79,900	13.62	43,700	7.46	36,200	27,200	4.64
2000-2001	5,974,900	80,800	1.37	80,700	13.60	43,900	7.40	36,800	44,000	7.41
2001-2003	6,041,700	66,800	1.12	79,300	13.20	44,900	7.47	34,400	32,400	5.39
2003-2004	6,098,300	56,600	0.94	78,900	13.00	45,400	7.47	33,500	23,100	3.80
2004-2004	6,163,600	65,300	1.07	81,200	13.24	46,900	7.65	34,300	31,100	5.07
2004-2005	6,233,100	69,500	1.13	82,800	13.35	47,700	7.69	35,100	34,400	5.54
2005-2006	6,310,600	77,500	1.24	84,500	13.47	48,300	7.71	36,200	41,400	6.60
2006-2007	6,389,500	78,900	1.25	85,300	13.43	49,000	7.72	36,300	42,600	6.71
2007-2008	6,470,100	80,600	1.26	86,500	13.45	49,700	7.73	36,800	43,800	6.81
2008-2009	6,553,100	83,000	1.28	87,700	13.47	50,300	7.73	37,400	45,600	7.01
2009-2010	6,639,000	85,900	1.31	88,800	13.47	51,000	7.73	37,800	48,100	7.29
2010-2011	6,725,300	86,300	1.30	90,000	13.47	51,800	7.75	38,200	48,100	7.20
2011-2012	6,812,000	86,700	1.29	91,200	13.48	52,600	7.77	38,600	48,100	7.11
2012-2013	6,899,100	87,100	1.28	92,400	13.48	53,400	7.79	39,000	48,100	7.02
2013-2014	6,986,500	87,400	1.27	93,600	13.48	54,300	7.82	39,300	48,100	6.93
2014-2015	7,074,000	87,500	1.25	94,500	13.45	55,200	7.85	39,300	48,100	6.84
2015-2016	7,161,300	87,300	1.23	95,400	13.40	56,100	7.89	39,300	48,100	6.76
2016-2017	7,248,400	87,100	1.22	96,100	13.34	57,200	7.93	38,900	48,100	6.68
2017-2018	7,335,100	86,700	1.20	96,800	13.28	58,200	7.98	38,600	48,100	6.60
2018-2019	7,421,300	86,300	1.18	97,500	13.21	59,300	8.04	38,200	48,100	6.52
2019-2020	7,507,000	85,600	1.15	98,100	13.14	60,500	8.11	37,600	48,100	6.44
2020-2021	7,591,700	84,800	1.13	98,500	13.05	61,800	8.19	36,700	48,100	6.37
2021-2022	7,675,600	83,900	1.10	98,900	12.96	63,200	8.28	35,700	48,100	6.30
2022-2023	7,758,500	82,900	1.08	99,300	12.87	64,600	8.37	34,700	48,100	6.23
2023-2024	7,840,300	81,800	1.05	99,700	12.79	66,100	8.47	33,600	48,100	6.17
2024-2025	7,920,900	80,700	1.03	100,200	12.71	67,600	8.58	32,600	48,100	6.10
2025-2026	8,000,400	79,500	1.00	100,600	12.63	69,200	8.69	31,400	48,100	6.04
2026-2027	8,076,300	75,900	0.95	101,000	12.57	73,200	9.11	27,800	48,100	5.98
2027-2028	8,153,600	77,300	0.96	101,500	12.51	72,400	8.92	29,100	48,100	5.93
2028-2029	8,229,700	76,100	0.93	102,200	12.47	74,100	9.05	28,100	48,100	5.87
2029-2030	8,304,700	75,100	0.91	102,900	12.44	75,900	9.18	27,000	48,100	5.82
1980-1990		734,300		705,300		339,800		365,000	369,200	
1990-2000		1,027,500		787,600		404,900		382,700	644,800	
2000-2010		744,900		835,700		477,100		358,600	386,500	
2010-2020		868,000		945,600		558,600		387,000	481,000	
2020-2030		798,000		1,004,800		688,100		316,700	481,000	
2000-2030		2,410,900		2,786,100		1,723,800		1,062,300	1,348,500	

*Rates are calculated per 1,000-midpoint population.

SOURCES: Forecasts of the State Population: November 2003 Forecast, Washington State Office of Financial Management.

